

Message Text

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64

ACTION EB-11

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CIAE-00 INR-10 NSAE-00 RSC-01 COME-00 OPIC-12 OMB-01

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DRC-01 /110 W

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R 020915Z MAY 74

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 6840

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

UNCLAS KUALA LUMPUR 2014

E.O. 11652: N/A

TAGS: EIND EFIN MY

SUBJECT: FOREIGN INVESTMENT CLIMATE AND STATISTICS

REF: STATE 86373

FOLLOWING IS INFORMATION REQUESTED REFTEL COVERING (1)
STATISTICAL DATA ON U.S. INVESTMENT AND (2) NARRATIVE
ON INVESTMENT CLIMATE. EMBASSY REGRETS INABILITY COMPLY
MAY 1 DEADLINE.

1. TOTAL U.S. INVESTMENT IN MALAYSIA US\$389,669,025
(AS OF DECEMBER 31, 1973)

OF WHICH

PETROLEUM AND MINING 188,321,619

MANUFACTURING 116,153,628

OTHER INDUSTRIES 85,193,778

N.B. OTHER INDUSTRIES FIGURE DOES NOT REFLECT

APPROXIMATELY US\$163,000,000 OUTSTANDING LOANS BY U.S.

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BANKS OPERATING IN MALAYSIA.

2. INVESTMENT CLIMATE IN MALAYSIA

(A) MALAYSIA IS ACTIVELY SEEKING FOREIGN INVESTMENT IN INDUSTRIAL VENTURES WHICH PRODUCE IMPORT SUBSTITUTES AND HAVE SIGNIFICANT EXPORT POTENTIAL. JOINT VENTURES WITH A LOCAL MAJORITY ARE THE OFFICIAL NORM. EXCEPTIONS ARE FREQUENT HOWEVER AND FOR HIGHLY DESIRED NEW EXPORT-ORIENTED INDUSTRIES UP TO 100 PER CENT FOREIGN OWNERSHIP MAY BE PERMITTED.

(B) WITH THESE OBJECTIVES IN MIND, THE INVESTMENT INCENTIVES ACT OF 1968 OFFERS SPECIAL ENCOURAGEMENT TO INDUSTRIES WHICH ARE LABOR INTENSIVE; INDUSTRIES UTILIZING DOMESTIC RAW MATERIALS; THOSE PROVIDING FURTHER PROCESSING OF THE COUNTRY'S PRIMARY COMMODITIES; INDUSTRIES WHICH MANUFACTURE CAPITAL OR INTERMEDIATE GOODS AS WELL AS THOSE WHICH ARE EXPORT-ORIENTED.

(C) A STATUTORY BODY - THE IMPLEMENTATION OF FOREIGN INVESTMENT HAS BEEN ENTRUSTED PRINCIPALLY TO FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY (FIDA), FIDA IS A CO-ORDINATING BODY, WHICH ALSO CONDUCTS PRE-INVESTMENT STUDIES, HANDLES INQUIRIES FROM POTENTIAL INVESTORS AND EVALUATES WITH OTHER GOVERNMENT AGENCIES THE APPLICATIONS FROM COMPANIES FOR PIONEER STATUS AND OTHER INCENTIVES.

(D) FISCAL AND OTHER INDUCEMENTS TO INDUSTRIALISTS ARE READILY AVAILABLE. FORTY FOREIGN AND DOMESTIC COMMERCIAL BANKS AND SEVERAL OTHER FINANCIAL INSTITUTIONS PROVIDE CREDIT FACILITIES. DESPITE INFLATIONARY PRESSURES IN THE PAST 2-3 YEARS, THE MALAYSIAN CURRENCY HAS REMAINED STABLE, AND HAS APPRECIATED IN VALUE. IT WAS ONE OF THE FIRST CURRENCIES TO BE ADOPTED BY THE IMF AS A QUOTE LOAN CURRENCY UNQUOTE.

(E) INDUSTRIES RECEIVE ASSISTANCE FROM THE MALAYSIAN GOVERNMENT IN VARIOUS FORMS. THERE IS AN IMPORT DUTY EXEMPTION FOR NECESSARY MACHINERY AND RAW MATERIALS, TARIFF PROTECTION FOR CERTAIN INDUSTRIES AS WELL AS PROTECTION THROUGH ANTI-DUMPING LAWS. THE GOVERNMENT EXERCISES PREFEREN-

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TIAL PURCHASING OF LOCALLY MANUFACTURED PRODUCTS. FOREIGN INVESTMENT IS GUARANTEED AGAINST NATIONALIZATION AND POLITICAL RISKS. AN INVESTMENT GUARANTEE HAS BEEN SIGNED WITH THE UNITED STATES AND A DOUBLE TAXATION AGREEMENT IS BEING DISCUSSED. MALAYSIA IS A MEMBER OF THE CONVENTION ON THE SETTLEMENT OF INTERNATIONAL INVESTMENT DISPUTES. THERE IS NO RESTRICTION ON REPATRIATION OF CAPITAL AND REMITTANCE OF PROFITS OR DIVIDENDS WITHIN THE STERLING

AREA, AND ONLY NOMINAL CONTROL ON CAPITAL MOVEMENT
OUTSIDE THIS AREA.

(F) COMPANIES WHOSE ESTABLISHMENT IS CONSIDERED VITAL TO
THE NATIONAL INTEREST CAN APPLY FOR PIONEER STATUS AND
BECOME EXEMPTED FROM INCOME TAX, DEVELOPMENT AND PAYROLL
TAXES FOR UP TO NINE YEARS. INVESTMENT TAX CREDITS,
EXPORT ALLOWANCES, PAYROLL TAX RELIEF AND ACCELERATED
DEPRECIATION ALLOWANCES ARE ALSO AVAILABLE ON A CASE-BY-CASE
BASIS.

(G) MORE THAN 160 AMERICAN FIRMS HAVE ALREADY CHOSEN TO
INVEST IN MALAYSIA. SOME HAVE MADE USE OF OPIC POLITICAL
RISK INSURANCE. MANY HAVE OBTAINED PIONEER STATUS AND DIRECT
THEIR OUTPUT TOWARD EXPORT MARKETS. LABOR IS INEXPENSIVE,
BUT STAFFING MUST REFLECT THE ETHNIC RATIO OF THE COUNTRY.
LIMITATIONS ARE PLACED ON THE NUMBER OF EXPATRIATES ALLOWED.

(H) SPECIAL TAX INCENTIVES ARE BEING CONSIDERED FOR
INVESTMENT IN LESS DEVELOPED AREAS OF THE COUNTRY TO
ENCOURAGE DISPERSAL OF FOREIGN INVESTMENT. ALL STATE
GOVERNMENTS HAVE ESTABLISHED STATE DEVELOPMENT CORPORATIONS
DIRECTED TOWARD HELPING INVESTORS FIND SUITABLE SITES AND
FACILITIES IN SPECIALLY CREATED FREE TRADE ZONES AND INDUSTRIAL
ESTATES.

(I) IN CONCLUSION, THE CURRENT INVESTMENT CLIMATE IN MALAYSIA
IS A HEALTHY ONE, AND WORTHY OF INVESTIGATION BY INTERESTED
U.S. INVESTORS.
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